

# How to price your work

Matthew Davis

Friday, 11 November 2016

Do you want to treat this as a hobby, or as a business?

**Hobby:** charge whatever makes you happy and lets you keep doing it.

**Business:** formulas should give you information about your pricing, but not determine your pricing. Use the formula to figure out the price below which you lose money by making and selling an item. You can then price at, below, or above that price while being aware that you lose money selling below that price. (That's not automatically a bad thing -- e.g., "loss leaders".)

Keep in mind that there are many roles in the course of making and selling items, and each of those roles deserves payment -- even if they are all the same person! Avoid the mistake of thinking you don't need to make a profit or charge extra for retail just because you're the owner of the business or the one doing the selling. Also remember that any money tied up in your business has an opportunity cost -- it's not enough to make back your money, you need to get back your money plus enough to make it worth doing this with your money instead of something else.

There are different formulas that can be used, and even with the same formula, different makers can plug in different numbers (e.g., hourly labor cost or materials markup) and get different results.

So, here's one typical formula:

wholesale = materials + overhead + labor + profit

**Materials** is your actual cost of materials times a factor (usually 1.5-2) to cover the opportunity costs of having capital tied up in inventory and the inevitable inventory losses that don't end up in a product.

**Overhead** are the costs you have that you can't directly associate with a particular product, such as utilities, space rental, etc.

**Labor** is what you choose to be paid, keeping in mind that these are "billable" hours. It will be higher than your actual wage since you won't get paid for time you spend shopping for pen blanks, straightening up your workshop, or working on a pen that you blow up on the lathe.

**Profit** is what you get for owning the business. If you owned the business but someone else did the labor, you'd have all the above costs and end up with zero if your formula didn't include profit.

So all that gets you the wholesale price, which is what you need to get for \*making\* the pen. If you also sell it, then you need a higher retail price. Wholesale x 2 is typical. The difference between retail and wholesale covers the costs of selling (advertising, time spent taking photos for online listings, time and money spent doing shows, time spent exchanging e-mails with customers, marketing, offering discounts, ...) and pays the retailer for their job. If you retail your products yourself, then you bear the costs and risks, and deserve to be paid for it!

The next step is to consider the item for sale. Two items may come up to the same price according to the formula, but one looks obviously superior to the other. It's fine to adjust the prices accordingly while keeping an eye on the bottom line.

You may also find that you end up with a price that seems ludicrously high, more than the market will bear. If so, you can try to find ways to reduce your costs, try to find a market that will bear it, remove that particular product from your line, or underprice it as a loss leader. Or try that price - sometimes, it turns out the market will bear it or the higher price attracts a different market!

One final note: don't worry about other makers who price differently from you. If someone out there is selling pens for one-tenth the price you need to charge -- that doesn't hurt your bottom line. Someone looking to spend \$200 on a gift isn't even going to look at a \$20 pen.